BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE COMMISSION’S INVESTIGATION INTO CHANGES OCCURRING IN THE ELECTRIC INDUSTRY. | )  )  )  )  ) | CASE NO. GNR-E-96-1  NOTICE OF INQUIRY  ORDER NO.  26312 |

YOU ARE HEREBY NOTIFIEDthat pursuant to its own motion the Commission hereby initiates this inquiry for the purpose of investigating and discussing changes that are occurring in the electric utility industry and that affect electric utilities subject to this Commission’s jurisdiction.

Proposed rules of the Federal Energy Regulatory Commission (FERC) will require electric companies to open their transmission systems for use by others, thus, altering their operation.  These changes may also have an effect on electric utility customers and the manner in which they obtain electric service.  The existing mix of regulation and competition and methods of regulation in Idaho need to be reviewed in light of these changing circumstances.

Changes facing the industry include increased third party transmission access, emergence of power marketers, increasing competitive pressures, and potential industrial customer reaction to the declining price of wholesale power in the short-term market.  These changes, in turn, may lead to increased customer choice and changes in the business strategies of Idaho’s electric utilities.

In response to these fundamental changes, the Commission initiates this investigation as a forum to explore issues associated with open access to transmission facilities and increased competition in the electric industry.  The overall goal of this proceeding is to examine alternatives to minimize long-term costs of a wide array of safe and reliable electric services provided with minimum effect on the environment.

This investigation will offer the opportunity for all interested persons to express their expectations and to identify and examine possible options for developing a competitive and  efficient electric industry in Idaho.  The Commission may ultimately rely on the results of this investigation to determine how best to prepare for, respond to and, to the extent possible, affect the changes taking place in the electric industry by creating a regulatory framework that enhances the benefits and diminishes the potential negative consequences of increased competition.

The Commission further recognizes that, pursuant to Title 61, Chapter 1 of the Idaho Code, there are certain retail suppliers of electricity who are not subject to this Commission’s jurisdiction and regulation.  These non-regulated suppliers are an integral part of the state’s electric industry, however, and are invited and encouraged to participate in this proceeding.

We are well aware that we are not the first public utility commission in the country to open an investigation into the future of the electric industry.  We have been following investigations in a number of states and note that several common principles have emerged in redesigning the electric industry in a way that broadens the array of choices available to customers and preserves the benefits of the existing electric system.  These principles describe the key characteristics of an industry that meets the overall objectives of economic efficiency and customer choice without sacrificing equity, safety, reliability, or environmental concerns.

The Commission will begin its investigation by identifying issues and holding open discussions on them.  These are draft issues subject to full discussion and review by interested persons.  The Commission invites analysis of these issues and the development of principles to guide our policies in light of the changing electric utility environment.  In particular, participants are invited to suggest necessary modifications to Commission regulations or enabling legislative authority that would be beneficial in the future.

The Commission embarks on this process in an effort to promote an open and productive discussion and a useful result.  Our ultimate goal is to articulate a series of principles that can be applied in our future policy making.  We also envision these discussions and ultimately, the principles will be useful to identify needed statutory changes.

With this in mind, we wish to emphasize that these are draft issues.  The proposed issues are provided to solicit and focus comment.  They are in no way intended to constrain discussion in this process.  If other questions and issues need to be addressed, parties should propose and discuss them according to the procedure set forth herein.

Issue #1)Effect of industry changes on the long-term integrity, safety, reliability and quality of the electricity system.

The need to reduce high electric rates has been the driving force behind much of the debate in other states.  In Idaho, we are fortunate to enjoy some of the lowest rates in the nation.  The motivation for engaging in this discussion for our state is to ensure that Idaho electric utilities have every incentive to improve efficiency and offer even more competitive rates while maintaining the existing quality of the electric system.  If there are specific service quality reliability measures that should be implemented, those should be enumerated.  The risk is that efforts to cut costs and be more efficient may impair service quality.

Issue #2)Customer choice in electric supply and demand-side options.

As the electric industry faces its transition to a more competitive industry many advocate that customer service and pricing options should reflect customer needs.  However, the Commission is concerned that full unbundling at this time may result in inappropriate proposals with the effect of inequitably shifting costs.

The feasibility and timing to provide broad customer options for a wider choice of electricity suppliers remains at issue.  The nature and extent of competition that would be beneficial and equitable to Idaho ratepayers needs to be explored.  The Commission will be watching with interest developments at the Federal Energy Regulatory Commission (FERC) as it proceeds on its investigation of jurisdictional issues.

The Commission believes that existing statutes and regulations allow Idaho utilities to respond to the changing environment.  Examples of existing options include pricing flexibility alternatives and the ability for corporate restructuring into separate functions or through establishing lines of businesses within the existing corporate framework. The Commission intends to monitor any undue advantage afforded a utility with generation, transmission, and distribution services in buying or selling services in competitive markets.

Issue #3)Distribution of the benefits of competition among customer classes.

Customers have generally benefitted from an increasingly competitive wholesale, or generation market as utilities procure power at lower average costs than in previous decades.  In addition to declining prices of wholesale power, customers may benefit by cost reductions and corporate efficiencies implemented due to a recognition that existing and future loads may be at risk to lower cost suppliers.  We wish to explore whether there are additional efficiencies to be gained from competition in retail markets.

The extent of competition in wholesale markets currently seems limited to large customers with competitive options.  This may lead to a distinction between core, or “captive” or “monopoly,” customers and non-core customers with other alternatives for service.  The Commission is concerned that inappropriate cost-shifting from non-core to core customers may occur in the name of competition.

Current rates are based on the historical, or “embedded,” cost of serving a particular customer class.  Some customer classes have maintained that marginal, or incremental, costs are lower than embedded costs.  Thus, there may be the threat of non-economic by-pass.  The Commission notes that special contracts may be used to provide pricing flexibility based on prescribed standards.  Customers of continuing monopoly services should benefit, or at least not be harmed, by choices made by customers with competitive options.

Issue #4)Distribution system access and the ability to receive reliable electric service from at least one provider at a reasonable rate.

The Commission anticipates that, even a vertical segregation scenario (in which generation, distribution, and transmission functions are separated) will allow distribution companies to continue to provide line access to end-use customers.  This may be an obligation to serve or only an obligation to connect.

Under existing state law, the serving utility or distribution company has an obligation to serve at a reasonable cost.  Reasonable cost is currently calculated using embedded costs.  In a competitive market if a customer leaves the serving utility̓s system (for example, to take advantage of currently lower marginal costs), the serving utility may not be required to serve this customer at embedded rates at a later date.

The Commission would like to discuss alternative forms of regulation that could be adopted to facilitate the transition to competition without shifting unreasonable risks to customers.  The Commission has recently approved an alternative form of regulation for both The Washington Water Power Company (WWP) and Idaho Power Company.

Issue #5)The future of public policies favoring environmental protection, energy efficiency, resource diversity, or technological innovation in competitive markets.

The Commission believes that energy efficiency, resource diversity, and technological innovation will enhance the onset of more competitive electric markets and should remain as objectives of electric utility operations in the future.  The Commission encourages utilities to consider programs that offer customer value through improved efficient use of electricity.  In determining the programs to offer, options that have long-term benefits for customers despite higher initial capital costs should be considered.

The Commission has approved a system benefit charge on an experimental basis for WWP to fund demand-side management programs.  The Commission hopes that this type of approach can preserve benefits not directly reflected in traditional cost recovery mechanisms.  The Commission will entertain other proposals intended to have similar effects.

The Commission has encouraged the development of renewable energy resources.  We question how renewable energy resources will be able to compete against lower cost thermal generating resources and whether or how it can assure that environmental externalities will not be ignored.

In a competitive environment, successful firms have a keen appreciation of their customers’ needs.  In this light, the Commission expects that public input into the utility planning process will be preserved in some manner for the mutual benefit of the utility and its customers.  Likewise, the Commission is aware of concerns about disclosing proprietary information in a competitive environment.  The Commission believes that the latter concerns can be accommodated while preserving the benefits of public/customer involvement in planning processes.

Issue #6)The effect of transitional regulatory decisions on competitors and the natural evolution of efficient markets.

We are aware of Moody’s August 1995 report which states that current Idaho jurisdictional utilities have no significant amount of potentially stranded assets.  With this as a premise, the Commission would like its discussions to focus on the effects of a more competitive industry on end users.

The Commission is interested in exploring methods to examine the potential recovery of transition costs as well as recovery of costs yielding “system benefits.”  In this manner we can ensure that all parties gaining benefits from altered utility operations will pay a fair share.  As utilities and interested parties encounter stranded costs and stranded benefits, we anticipate that such items will be identified and quantified with options suggested for assigning responsibility for and recovery of these costs and/or benefits.

Issue #7)Idaho-specific issues and the impact of changes on the existing benefits of the hydro system.

Idaho customers have low electricity rates due, in part, to hydro-related benefits.  The Commission questions if and how the benefits of the hydro system can be retained for native load customers.  This Commission reviews and approves power purchase contracts prior to our utilities taking delivery.  This allows prudency reviews to be performed coincident with contract signing.  The Commission believes that this process has worked to the benefit of Idaho customers and utilities.

In a separate proceeding, the Commission is currently examining appropriate avoided cost treatment.  The wholesale market and its degree of competition will continue to be reviewed as necessary to determine if it should be deregulated.

The Commission believes that existing legislative authority is adequate and sufficient to respond to industry changes on a case-by-case, utility-by-utility basis.  The Commission welcomes opinions of parties about what specific changes, if any, must be made to Idaho laws to accommodate the transition to competition.

Issue #8)Other issues.

A number of other issues have been raised around the country.  Participants are encouraged to raise other related issues and provide detail about specific impacts in Idaho.

Although some might argue that change in the industry is occurring at such a pace that the Commission can hope for no more than a snapshot at a point in time, we believe it is necessary to begin a dialogue among industry participants now.  We agree with conclusions reached by the Washington Utilities and Transportation Commission that any ultimate decision related to retail service competition must await resolution of the structural and jurisdictional issues raised in the FERC Notice of Proposed Rulemaking (NOPR) (RM95-8-000 and RM94-7-001).  We believe, however, that if this Commission waits too long to begin its analysis, it will not be prepared to make decisions and take action as expeditiously as required to accomplish the orderly transition needed by the industry and customers.

YOU ARE FURTHER NOTIFIED that the Commission will conduct two workshops for the purpose of discussing the foregoing issues, as well as any other relevant matters participants wish to discuss, on WEDNESDAY, FEBRUARY 14, 1996, COMMENCING AT 9:30 A.M., AND AGAIN ON TUESDAY, MARCH 19, 1996, COMMENCING AT 9:30 A.M., IN THE HEARING ROOM OF THE IDAHO PUBLIC UTILITIES COMMISSION, 472 WEST WASHINGTON STREET, BOISE, IDAHO.  The workshop will be an open discussion forum and any interested persons are encouraged to attend and participate.  The Commsision will determine at a later time whether to conduct additional workshops.

O R D E R

IT IS HEREBY ORDERED in recognition of the foregoing the Commission initiates this case for the purposes stated herein.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this              day of December 1995.

                                                            RALPH NELSON, PRESIDENT

                 MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

                                                                MYRNA J. WALTERS

Commission Secretary

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